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February 18, 2005

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**SUBJECT: REVIEW OF PUBLIC ADMINISTRATOR'S INTERNAL CONTROLS  
OVER ESTATE ASSETS**

## Introductory Remarks

We have completed an audit of the internal controls in effect over the Public Administrator's procedures for processing, securing, recording, and handling estate assets and transactions. The audit was conducted in response to a request from the Treasurer-Tax Collector who was appointed Public Administrator on January 8, 2005.

## Audit Scope

Our audit covered the period July 1994 to January 2005 and was made in accordance with the standards developed by the Institute of Internal Auditors. The primary objective of our audit was to assess the effectiveness of existing internal controls over the handling of estate assets and transactions. Our procedures consisted of conducting a physical inventory, reviewing active and inactive case files, inventory records, sales and other disposal records, receipts and disbursements, as well as on-site interviews with Fiscal personnel.

This audit, conducted for the limited purposes described above, would not necessarily disclose all material weaknesses in internal controls. A material weakness is a condition in which the design or operation of one or more of the internal controls does not reduce to a relatively low level the risk that material errors or fraud may occur and not be detected timely by employees during the normal course of performing their duties. Accordingly, we did note some conditions that required immediate attention. These weaknesses were brought to management's attention and corrective action has already been implemented in some cases. We have not considered internal controls since the date of our report.

To accomplish the audit objectives not related to the physical inventory, we requested a listing of all open and closed cases as of January 7, 2005. The Supervising Deputy Public Administrator provided us with an Excel file containing 1,810 records. Of the 1,810 records, 244 are active and 1,566 are closed cases. The records included the following information: case number, case name, status code, and status date. From the list provided, we randomly selected 60 active and 60 closed cases.

Based on the results of our audit of the first 6 active and 4 closed cases, we found that, among the cases to which a particular criterion applied—defined as eligible cases—the same problems existed. For this reason, we did not review the remaining cases in our sample. However, we did conduct a complete physical inventory. The results of our audit are summarized as follows:

### **FINDINGS AND RECOMMENDATIONS**

#### **Finding 1: Controls over receipts could be improved.**

The Public Administrator's Standard Practice Statement No. PA-01-40 requires that all receipts related to a decedent's estate be appropriately safeguarded to ensure that an accurate accounting is maintained for each estate.

However, the results of our audit testing revealed the following:

- In 8 of 8 eligible cases, currency or coins obtained at the decedent's residence were not counted, receipted, or deposited promptly;
- In 7 of 8 eligible cases, cash found at the decedent's residence or in their safety deposit box was not noted on the inventory listing and/or documented in the case file;
- In 8 of 8 eligible cases, an original county receipt for cash recovered at the decedent's estate could not be located in the case file; and
- In 3 of 6 eligible cases, there was no evidence that receipts were issued for sale proceeds and funds deposited promptly.

When receipts are not issued and funds are not promptly recorded, a decedent's estate may not be properly credited with its assets. Further, the risk of loss is increased when receipts are held for extended periods of time before deposit.

#### **Recommendations**

Implement a receipting process that will provide accountability for funds received. This process should include, at a minimum, receipting and depositing funds promptly, issuing an official county receipt as required, and recording all estate property in the decedent's case file and the related inventory log. In addition,

**Finding 1: Continued**

adhere to the department's policy which requires that the original receipt for cash removed from the decedent's estate be maintained in the case file.

**Management's Response**

The receipting process has been improved since the time of the audit. Currency and coin obtained at a decedent's residence are counted and sealed in a security bag in double-custody, logged and placed into a holding safe. On a weekly basis, accounting staff opens the sealed security bag, counts the money in double custody, prepares an Official County Receipt, and then deposits the money. The original receipt is placed in the case file, one copy is placed in the fiscal file, and the remaining copy is secured in the receipt book.

Monies obtained through estate sale are receipted by the Supervising Deputy Public Administrator, placed in a safe, and deposited on a weekly basis. A copy of the receipt is placed in the case file.

**Finding 2: Sale procedures could be improved.**

California Probate Code Sections 7660-7666, 10250-10264 and 10300-10316 address the sale of personal and real property and the circumstances under which such sale of assets must be pre-authorized by the court. These sections also outline the requirements for notification to and approval by the court after the sale. A complete listing of items being sold must be properly documented in the case file. In addition, dual custody must be observed in some instances such as the opening of sealed bids.

However, during our audit, we observed the following in the 10 cases examined:

- In 3 of 9 eligible cases, the requisite approval or authorization was not obtained prior to the sale;
- In 6 of 8 eligible cases, a listing of estate assets being sold (or otherwise disposed of) was not maintained in the case file;
- In 6 of 6 eligible cases, dual custody was not documented for handling estate sales as required;
- In 1 of 6 eligible cases, the court was not notified of the estate sale as required; and
- In 1 eligible case, the extension of bid sale was not properly documented in the case file.

When sales procedures are not followed, errors and omissions in the sale of estate assets may occur and remain undetected and uncorrected. Sale proceedings that are not in accordance with applicable guidance could result in liability for damages as provided in Probate Code Sections 10380-10382.



**Finding 2: Continued**

**Recommendations**

Comply with the provisions of the California Probate Code regarding the sale of a decedent's real and personal property. Ensure that the requisite approvals and authorizations are obtained and required notifications processed when required. Enforce the 'dual custody' requirement for handling estate sales. Complete all sale documentation for inclusion in the case files and inventory logs.

**Management's Response**

The sales procedure has been improved since the time of the audit. All sales in formal probate proceedings and in summary proceedings where Real Estate is being sold are obtaining the requisite approval prior to the sale. This is not required in sales of personal items in Miscellaneous or Summary proceedings. The supervisor is reviewing all sales prior to actual sale. A listing of all estate assets being sold or disposed of is now being reviewed by the supervisor prior to the property being sold or disposed of. The warehouse personnel are now complying with the dual custody requirement which was lacking in some cases prior to the audit, however the warehousemen are now employees of the Public Guardian. If dual custody is not documented properly, the supervisor returns the inventory to supervision at the Public Guardian for correction. The supervisor reviews all files at the close of a bidding period and assures that the extension of a bid sale is properly documented in the case file.

**Finding 3: Trust income was not properly recorded.**

Prudent business practice requires that amounts received for trust accounts be accurately and promptly recorded. This means that all parties involved can reasonably rely on the County's assertions regarding trust account balances.

However, because of inadequate record-keeping, we could not determine the correct balance in the estate's trust account or whether trust income had been credited to the appropriate estate in 3 of eligible 8 cases. Trust assets may be posted to the wrong account and, therefore, impacted accounts would not accurately reflect assets owned, resulting in a gain or loss for a decedent's estate. As a result, public confidence in the Public Administrator's function may be impaired.

**Recommendations**

Review all existing accounts to ensure that each decedent's trust account is correctly stated. Implement procedures to ensure that all future activities impacting a decedent's account are accurately and promptly recorded. Ensure that trust income is credited to the correct account and that said accounts are

**Finding 3: Continued**

periodically reconciled, at least quarterly. Conduct supervisory reviews of trust balances and maintain the related supporting documentation in the case file.

**Management's Response**

The recording and reconciliation of trust income has been improved since the time of the audit. Trust balances in Computrust are reviewed on a weekly basis and reconciled to the FAS trust balance on a monthly basis. Supporting documentation for trust income is maintained in a fiscal file for each individual case.

**Finding 4: Disbursements from the decedent's estate could be improved.**

Disbursements made from a decedent's estate must be in accordance with various sections of the California Probate Code such as Sections 7660-7666, 10550-10565, and 11750-11754. Said disbursements also require proper approval and must be supported by invoices, with appropriate documentation maintained in the case file.

However, none of the 10 case files in our sample met the established criteria. Estate disbursements were either not made in accordance with the California Probate Code, were not properly approved, or were not supported by invoices. These discrepancies could result in unauthorized, duplicate or erroneous transactions being posted to the decedent's account. Further, there is significant risk that embezzlement may occur and remain undetected.

**Recommendations**

Ensure that all disbursements are made within established guidelines and have been properly approved by supervisory personnel. Document all disbursements in the case files and logs to provide an audit trail. At least on a quarterly basis, compare account disbursements to supporting documentation and reconcile to the general ledger. Ensure that this reconciliation is timely reviewed by senior staff not involved in its preparation and have said reviewer initial and date the reconciliation as evidence of the review.

**Management's Response**

The disbursement of funds from decedents' estates has been improved since the time of the audit. Disbursements from estates are not made without invoices or equivalent documentation including a written request for payment signed by a Deputy Public Administrator and approved by the Supervising Deputy Public Administrator. The supporting documentation is reviewed by accounting staff

**Finding 4: Continued**

before payments are processed and then compared to actual disbursements by supervisory accounting staff.

**Finding 5: Quality control could be improved.**

Standard Practice Statement No. PA-03-24 requires that quality control audits be conducted at initial case set-up, then at 6, 9, and 18 month intervals by either a peer or the supervisor as required. Also, cases must be reviewed by the supervisor prior to closure. These quality control reviews are designed to ensure improved service to the estate as well as to identify and correct problem areas.

However, this policy was not enforced by Public Administration personnel. During our test of case files, we observed the following:

- 3 of the 6 active case files contained no evidence of the required periodic review; and
- None of the 4 closed cases contained evidence of the final supervisory review.

Failure to comply with established quality control measures could result in erroneous or fraudulent transactions and activities remaining undetected.

**Recommendations**

Comply with the department's existing quality control procedures. Ensure that a final review is conducted by the supervisor prior to closing a case and that all active case files are reviewed at the designated intervals. A sample of case files should be reviewed on a random, unannounced basis by an individual independent of the process to ensure that these procedures are adhered to. This review process will contribute to the maintenance of organized, accurate, and complete documentation in the case files.

We further recommend enlarging the quality control process to include the development, adoption, and implementation of a comprehensive training policy for the department. This policy should address, at a minimum, the training needs for new and continuing staff, appropriate standards, documentation to be maintained, frequency of training, and assignment of the training function to a senior-level manager. When every employee receives appropriate training at regular intervals, this contributes significantly to improved efficiency and accountability.

**Finding 5: Continued**

**Management's Response**

The Public Administrator has improved the process of conducting a final audit and supervisory review prior to the closure of all estates. Our procedures indicate that we will conduct an audit of every file at 3 months, 9 months and 18 months and a final audit at closure. The supervisor has been developing a plan to conduct "unannounced" audits that will be signaled as due when the PA's new software system is implemented this fall. Further, the division is incorporating into the new software system methods to measure performance so that appropriate training can be given to facilitate error reduction and timely processing of all estate proceedings.

**Finding 6: Instructions for safeguarding estate valuables were not consistently followed.**

Standard Practice Statement PA-03-01 requires that the removal of a decedent's valuables, to the Public Administrator's safe or warehouse for safekeeping, be appropriately recorded on the inventory listing and in the case file.

However, during our test work, we observed the following:

- In 6 of 6 eligible cases, valuables (such as jewelry, stocks, bonds, title to real estate, etc.) removed from the decedent's residence during the initial visit were not properly accounted for in the case files; and
- In 8 of 8 eligible cases, valuables collected were either not kept in the holding or property safe, or were not recorded on the log of safe contents.

Because policies and procedures were not always observed, estate valuables which are particularly susceptible to theft are not properly safeguarded. There is little written evidence to provide accountability for valuables removed from the decedent's residence and estate assets may be incorrectly stated.

**Recommendations**

Comply with the department's policy for safeguarding an estate's personal properties to ensure that a decedent's assets are properly accounted for. Remind Public Administration personnel of the need to immediately record valuables removed from the decedent's residence for safe keeping and to periodically verify their existence and value.



**Finding 6: Continued**

**Management's Response**

The safeguarding of estate assets has been improved since the time of the audit. Valuable items removed from estate residences are inventoried and logged into a holding safe in dual custody. A log of the items in the safe is maintained and updated as items are entered and removed from the safe. In addition, a semi-annual inventory of estate assets will be conducted by accounting staff to verify the existence of these valuables.

**Finding 7: Guidelines for the physical movement of estate property were not enforced.**

Standard Practice Statement Number PA-03-19 requires that when property is removed from or returned to storage, the original inventory should be dated and initialed. In addition, if the property being removed is to be donated, the authorization memo must be properly secured in the case file.

However, during our test work, we observed that in 9 of 9 eligible cases, records were not properly maintained for the removal/return of estate property in storage; and in 2 of 2 eligible cases, documentation to support the donation of estate assets was not maintained in the case files. This failure to follow established procedures could result in the inadvertent loss or deliberate misappropriation of estate properties in the department's custody.

**Recommendations**

Remind staff to comply with documented procedures regarding the movement of estate property once placed in storage at Public Administration. Ensure that assets in the department's custody can be accounted for at all times and that all required supporting documentation is maintained in the case files. Conduct random, unannounced, physical counts and inspections on a sample basis to determine if policies and procedures are being followed.

**Management's Response**

Since the time of the audit, staff has been reminded of the need to comply with documented procedures in the movement of estate property once stored at PA. A logging system has been developed and is being maintained by supervisory or accounting personnel as appropriate. Staff must now sign for all property removed from the warehouse or either of the division's combination safes. All property of value is maintained in sealed security bags. Random, unannounced physical counts of the safe contents are conducted by the supervisor at least monthly. Access has been limited to both safes to supervisory personnel.



**Finding 7: Continued**

A copy of the original directive to transport the property for appraisal, donation or any other action not carried out by the deputy themselves, is maintained in the file. The directive is returned to the deputy with an annotation as to what the transporter did with the property either to return it to safekeeping, or to whom they surrendered it along with a signed receipt. These are maintained in the file. Items maintained in the safe are inventoried and logged into the safe. Items in the safe are now also recorded on the estate information sheet contained in the case file.

**Finding 8: Inventory procedures could be improved.**

The Public Administration Department must be able to account for all estate assets in its custody. One of the mechanisms utilized to meet this requirement is the inventory process. Standard Practice Statement No. PA-03-01 provides for the detailed listing of estate property on the department's regulation inventory form which must then be signed by the deputy and witness. In addition, The County's Internal Controls and Cash Manual, page 2-4, further requires that the existence and value of assets be periodically verified, reconciled, and completely accounted for.

However, the above inventory procedures were not consistently followed by department personnel. During our test of the case files in our sample, we noted the following:

- In 6 of 6 eligible cases, inventory listings were not properly completed, signed, and dated by the Deputy and witness during the initial visit to the decedent's residence;
- In 7 of 8 eligible cases, dual custody of assets was not consistently observed when required; and
- In 9 of 9 eligible cases, an inventory reconciliation was not performed, and there was no supporting documentation or explanation in the case file for variances observed.

In addition, during the physical inventory, we noted that property logs were not properly maintained nor was the warehouse inventory report consistent with the actual property on hand. Further, the organization of the warehouse is inadequate. When the inventory procedures in place are not complied with, this limits the effectiveness of the department's custodial function. Assets may be excluded from a decedent's estate resulting in an incorrect valuation. These weaknesses foster an environment in which fraudulent activity may occur.

**Recommendations**

Develop a training program for new and continuing personnel responsible for securing estate assets. Training should address the steps required to complete the detailed inventory listing and subsequent periodic reconciliations. Update property logs and the warehouse inventory report and reconcile the inventory

**Finding 8: Continued**

report to actual properties on hand. Conduct supervisory reviews designed to verify that documents were completed accurately. Organize warehouse facilities to ensure that the assets of the various estates in the department's custody are not commingled and that said assets can be properly accounted for.

**Management's Response**

PA staff and the staff of the warehouse have been reminded of the importance of always utilizing dual custody in the handling of all estate property. Security bags are being implemented where ever appropriate to create a custody trail. The importance of logging property into and out of the safes and in the warehouse is being monitored by the supervisors the units. Reconciliation of inventory listings is being done on each lot of estate property as it is handled by either PA staff or warehouse staff and discrepancies reported to supervision to be addressed.

The PA will be implementing new systems for tracking and maintaining inventory records this fiscal year. We have purchased and are developing an entirely new, web-based software system that will allow us to enter inventory information for all estates on site. Included will be a method for reconciling the inventory recorded on the scene with what is actually brought into the warehouse for storage. All staff will be trained in this new procedure to create complete detailed inventories and reconciliation. The procedure will also include methodology for the supervisor to conduct reviews and verify the accuracy of the documentation produced.

We have been advised that the warehouse budget has designated funds to purchase storage containers in this new fiscal year. We are working with the warehouse in the meantime to create simple methods to maintain the integrity of each estate "lot" so it can be accurately accounted for upon demand.

We appreciate the courtesy extended to us during our audit and wish to thank the management and staff for their full cooperation during the audit.

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February 18, 2005  
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Respectfully submitted,

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